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Federal lawmakers query colleges on endowments

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“As Congress moves forward with efforts to reform the tax code, it is prudent we gather as much information as possible about how preferences in the tax code are applied,” said Senator Orrin Hatch, a Utah Republican.

By Matt Rocheleau

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Federal lawmakers are asking the nation's richest colleges and universities for details about their multibillion-dollar endowments, which have continued to grow even as tuitions increase, and the schools' benefit from tax breaks because of their "charitable and educational" missions.

Harvard University, which has the world's largest endowment at \$36 billion, and 13 other schools in New England were among those on the list of 56 private institutions with endowments of \$1 billion or more that received requests for information last week from the chairmen of two congressional committees.

"Despite these large and growing endowments, many colleges and universities have raised tuition far in excess of inflation," said the letter, which was signed by the chairmen of the Senate Finance and House Ways and Means committees.

"As Congress moves forward with efforts to reform the tax code, it is prudent we gather as much information as possible about how preferences in the tax code are applied," Senator Orrin Hatch, the Utah Republican who chairs the Senate committee, added in a statement.

Lawmakers have raised such concerns before as ballooning endowments have coincided with rising tuitions and student debt.



US colleges raise record

amounts

Harvard University's money-raising prowess was exceeded only by Stanford University, which raised \$1.63 billion, the most ever reported.

Meredith Warren: A 'millionaire tax' for colleges

College officials defended their massive savings, saying that endowments are designed not only to help pay for current operations — including student financial aid, faculty salaries, and research — but are also meant to generate income that helps to fund their operations.

“The way colleges manage endowments and make financial decisions over time has proven to be very responsible,” said Richard Doherty, president of the Association of Independent Colleges and Universities in Massachusetts.

He said it would be dangerous if lawmakers were to try to force colleges to spend more of their savings.

“There’s not a need for a legislative fix,” he said. “We’ve got a pretty good formula working, a lot of it driven by private dollars, and I think it would be unwise to tinker with that.”

Harvard president Drew Faust recently wrote in a column in Harvard Magazine that endowments are intended to have “vigorous immortality.”

College administrators also say that large chunks of college endowments can be spent only on certain programs because of restrictions set by donors.

The lawmakers’ letter asked 13 endowment-related questions, and requested answers by April 1.



Separately, US Representative Tom Reed, a New York Republican, last month proposed requiring that colleges with endowments of \$1 billion or more either spend about 25 percent of their annual endowment income on financial aid or forfeit their tax-exempt status.

The richest colleges have faced criticism for having an inordinate share of the wealth in higher education.

The combined value of the top 1 percent of college and university endowments represents about 72 percent of all higher education endowment dollars nationwide, according to an analysis of fiscal 2014 data from 7,687 schools nationwide collected by the US Department of Education.

“Many universities are overly focused on endowment at the expense of other worthwhile investments,” said Brian Galle, a Georgetown University law professor who has studied college endowments.

Congress should be asking questions “to gently pressure universities to consider their policies with more of an eye to the general social good,” Galle said in an e-mail

New England institutions are some of the wealthiest in the country.

Second to Harvard on the list of colleges targeted by legislators is Yale, which has a \$25.6 billion endowment. MIT ranked fifth with an endowment of about \$13.5 billion.

Harvard spokesman Jeff Neal said in a statement that the university’s response to legislators will provide “clarity on the strong financial management practices governing the endowment and the positive impact it has for students, faculty, researchers and society.”

Harvard’s Faust said in her column that people who donate want their money to “have an effect on both the present and the future, supporting activities and driving progress forever.”

Officials at Yale and MIT declined to comment.

The legislators identified the colleges targeted in their inquiry by reviewing data published annually by the National Association of College and University Business Officers. Colleges must disclose certain financial details because of their non-profit status and requirements set by the US Department of Education.

The association's research "showed endowments had an average return on investment of 15.5 percent and an average payout rate of 4.4 percent during the 2014 fiscal year," the letter from legislators said.

The lawmakers' list was based on data for fiscal 2014, which ended in June 2014. However, two weeks ago, the college organization released data about endowment figures as of the close of fiscal 2015, which ended June 30.

The new data showed that all college endowments had an average return on investment of 2.4 percent and an average spending rate of 4.2 percent during fiscal 2015.

John Walda, president and chief executive of the group, said in a statement last week that he believes the colleges' responses to the lawmakers' letter "will demonstrate the prudent practices through which higher-education institutions manage their endowments."

"The fact that schools have been able to raise their endowment dollars as state support has diminished and financial markets have turned turbulent is a testament to the endowment managers and others on campus who are doing all they can to meet the needs of students and faculty," Walda said.

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